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**Introduction**

- As unforgiving financial markets and appalling corporate scandal batter the telecommunications sector, people ask:  
What really happened? How did it happen? Did competition fail? What role do governments have in restoring confidence in this sector, which is so important to our prosperity and quality of life?

**Twin Crises**

- We confront two separate, related crises that have undermined public confidence and investor faith.
- One involves accounting scandals and corporate malfeasance on the part of specific and isolated companies.
- The other -- the “*telecom meltdown*” – has resulted in broad sectoral distress, marked by overcapacity, high debt burdens, lost jobs and precipitous declines in the market value of technology companies.
  - Over-capacity: According to *BusinessWeek*, the capacity utilization in North America of local and long distance voice and data networks is 35 percent, while the price of high-speed business connectivity between New York and London has fallen 95% during the past three years.
  - Jobs: U.S. Bureau of Labor Statistics reports that 136, 000 jobs were lost jobs in U.S. communications services sector from May of last year to Sept of this year.
  - Market Value: *BusinessWeek* also reports that two 2 trillion dollars of market value has been lost in the U.S. Telecom sector in current bear market.
- Despite these challenges, there are reasons to be confident in the sector’s long term prospects.
  - Internet usage continues to grow at historically high levels; despite economic slowdown, Internet use continues to grow at 4% annualized rate worldwide.
  - broadband is increasingly available to residential users;
    - Most recent FCC 706 report showed a total of 9.6 million high speed subscribers in the United States, up 36% in the first half of 2001 from the year before.
  - mobile phone penetration in the United States increased by 20% in 200. Wireless services are beginning to replace the traditional wireline family phone; **and**
  - 98% of U.S. schools are connected to the Internet.

### **Role of the Regulator**

- In such times, the continuing role of the independent regulator is to:
  - Safeguard continuity in the provision of essential telecommunications services.
  - Provide a context for the key dynamics affecting the telecom industry to decision makers in the commercial, political and social sectors.
  - Assess regulatory policies in light of regulatory experience, as well as in light of commercial, social, judicial and technological developments; **and**
  - Be flexible enough to refine regulatory approaches as necessary.

### **Confronting the Crisis, Restoring Confidence**

- We have to continue to confront the crisis and restore confidence.
- It is not the FCC's job to "pick winners and losers."
- A regulator's job is to understand the market realities facing service providers and investors and to be sure its rules don't exacerbate any existing problems.
  - The FCC has redoubled efforts to understand underlying commercial, technological and financial market dynamics.
- Our ongoing work on local competition and access to local networks illustrates the continuous cycle of review and refinement.
- With the 1996 Telecommunications Act, the U.S. Congress sought to encourage local competition to mirror the robust competition in international and domestic long distance.
- Congress focused on interconnection and unbundling requirements in recognition of the potential barriers to competition inherent in the control of bottleneck facilities. This was groundbreaking work and the Commission's initial policies to implement the Act were inevitably somewhat theoretical.
- Now, however, the FCC has now had almost six years of real world experience with interconnection, unbundling, and other local competition policies.
  - We remain fully committed to our competition goals; we also recognize that all competition is not the same.
  - Thus, the FCC is focusing on creating incentives for businesses to invest in infrastructure. Redundant infrastructure decreases reliance on incumbent networks. It also allows new entrants to compete on innovation in services and on real cost differences based on superior service delivery.
- We are also exploring how to promote facilities-based competition, while fostering universal service and the rapid introduction of competition to all markets.
- FCC analysis is also influenced by homeland security concerns, which have underscored the importance of facility-based competition.

### **Intermodal Competition**

- More broadly, the Commission's focus is increasingly on the impact of intermodal competition.
- The long-anticipated arrival of convergence is upon us. Formerly distinct markets for cable and satellite TV, wireline telephony and data services, and wireless and satellite applications are beginning to overlap.

- Some overlap, such as broadband delivery by DSL or cable modem, was predicted;
- Convergence in other markets, like broadband over unlicensed ultra-wideband networks, was not unanticipated.
- The Commission’s review of intermodel competition looks at broadband policy, spectrum policy and media issues because these will shape long-term consumer access options.

### **Broadband**

- Broadband has come to be the center of debate about the appropriate roles of the public and private sectors as convergence moves from buzzword to business plan. The FCC’s role is on the “supply side” and it’s clear that the challenge of increasing consumer uptake rates goes beyond that role.
- The FCC’s guiding principles in the broadband space are:
  - To promote the availability of broadband-capable infrastructure to all Americans, recognizing that infrastructure build-outs take time.
  - To conceptualize broadband to include any technological platform that is capable of fusing communications power with computing power to provide bandwidth-intensive content.
    - That is, we recognize that broadband is **not** delivered **only** by wireline networks via cable modem service or DSL. Some of the most promising broadband solutions for rural and high cost areas may be over wireless and satellite networks.
  - The FCC also recognizes that at this early stage in the development of broadband, the broadband regulatory environment must serve to promote investment and innovation. Substantial risk investment is needed to either upgrade legacy networks or to develop new networks to support broadband capabilities and applications.
  - Finally, we believe that sound regulatory policy should, where appropriate, harmonize regulatory rights and obligations that are attached to the provision of similarly situated services across different technological platforms.
  - This relates to what is often called the “regulatory parity” issue. The convergence of industries **demand**s that we rationalize our regulatory regime.
- To implement these principles, the FCC has launched several major proceedings to clarify the regulatory environment for broadband services and lower the costs and risks associated with deployment of new infrastructure.
  - The FCC is asking the question of how to define a “dominant player” in a converged world. Could we (and should we) deregulate specific carriers or specific services depending on relative levels of competition and market power in the provision of broadband services?

### **Spectrum Policy**

- For now, broadband access questions continue to focus on wireline space. When moving to wireless access, focus inevitably turns to radio spectrum management.
  - There is an increasing demand for access to spectrum, which has made spectrum management a difficult task for government. The overarching

challenge of spectrum policy is to ensure the public interest is best served by balancing competing demands for access to spectrum while striving to promote competition through the deployment of new technologies.

- Spectrum policy is not static – it requires the difficult task of predicting spectrum needs not just for today but for the next generation.
- The FCC is moving toward flexible, technologically neutral policies that allow the market to adjust without constant government intervention. We believe this will promote innovation, competition, and efficiency in commercial wireless markets.
- Flexible spectrum use policy emphasizes a deregulatory environment, except to prevent interference. This includes allowing licensees to develop any technologically feasible services that best accomplish their business plans. It also allows evolution within existing bands to more advanced services (such as from 2G to 2.5 and eventually 3G).
- Similarly, technology neutrality permits multiple, evolving standards and technologies while encouraging industry efforts to achieve interoperability and harmonization.
- Finally, the FCC is encouraging efficient spectrum use through secondary markets rules governing the transferability of spectrum licenses and usage rights that would allow licensees to buy and sell licenses, subject to competitive safeguards.

#### **Satellite and Broadband**

- Satellite: spectrum and broadband issues converge in satellite policy. In this area as well, regulators are working to understand the messages that markets are sending. We are also determined that our regulatory regime will facilitate and not hinder provision of new services by eliminating backlogs and revamping our licensing procedures.

#### **Final Point**

- In the coming months, a number of FCC staff efforts will come before the Commission for consideration and approval. Right now, the FCC is grappling with the full complexity of the issues before us, seeking input and ideas. Our aim is to set the best possible regulatory framework for the future, with the “public interest” always foremost in our mind.